

**SOUTH CAROLINA CENTERS OF
ECONOMIC EXCELLENCE**

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2003

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
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YEAR ENDED JUNE 30, 2003**

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**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
REVIEW BOARD
JUNE 30, 2003**

<u>NAME</u>	<u>POSITION</u>	<u>APPOINTMENT</u>
Edward T. McMullen, Jr.	Chairman	Speaker of the House
Samuel J. Tenenbaum	Vice Chairman	Governor
Benjamin T. Rook	Secretary	Speaker of the House
Paula Harper-Bethea	Member	Speaker of the House
William Amick	Member	President Pro Tempore of the Senate
James Bailey	Member	President Pro Tempore of the Senate
Robert W. Pearce, Jr.	Member	Governor
Margaret Addison	Member	Governor
Anthony O'Neill	Member	President Pro Tempore of the Senate
James F. Barker, FAIA	Non-Voting Member	Ex-Officio
Raymond S. Greenberg, M.D., Ph.D.	Non-Voting Member	Ex-Officio
Andrew A. Sorensen, Ph.D.	Non-Voting Member	Ex-Officio



South Carolina Centers of Economic Excellence
Management's Discussion and Analysis
Period: Fiscal Years 2003-2006

The following discussion and analysis has been prepared by staff from the Commission on Higher Education to provide an overview of the activities of the South Carolina Centers of Economic Excellence Program (Endowed Chairs Program) for fiscal years 2003-2006. This discussion and analysis should be read in conjunction with the financial statement and accompanying notes to the financial statement. The financial statement has been prepared by an independent auditor (Derrick, Stubbs & Stith, LLP) in accordance with S.C. 2-75-10.

Overview of Endowed Chairs Program

In 2002, the South Carolina General Assembly passed the Research Centers of Economic Excellence Act. The legislation appropriated \$200 million through 2010¹ from the South Carolina Education Lottery to establish unique Centers of Economic Excellence at South Carolina's three senior research institutions: Clemson University, University of South Carolina, and Medical University of South Carolina. Each Center of Economic Excellence (CoEE) specializes in unique, knowledge-economy research (in fields such as engineering, nanotechnology, biomedical science, and energy science) that promotes and creates enhanced economic opportunities for the state.

¹ The General Assembly appropriated \$30 million per year in the state budget for fiscal years 2003 through 2006.

The Act also created the CoEE Review Board, which provides program oversight. The Review Board is composed of nine members: three appointed by the Governor; three by the President Pro Tempore of the Senate; and three by the Speaker of the House of Representatives. Membership terms are three years, and individuals may serve three total terms. The presidents of South Carolina's three research universities also serve as ex-officio, non-voting members of the Review Board. Staff and operational support for the Endowed Chairs Program is provided by Commission on Higher Education staff. The Commission on Higher Education approves the operational budget for the program.

The CoEE Review Board held its first meeting on October 17, 2002, at which it approved formal Bylaws. At the December 5, 2002, meeting, the Review Board approved *Program Guidelines* and *Requests for Proposals Guidelines for 2002-2003*, which established a competitive, annual process whereby Centers of Economic Excellence are proposed by the research institutions and approved by the Review Board. The three-tier review process includes two rigorous scientific evaluations (a technical review and an onsite panel review), followed by the Review Board's analysis of the review findings and a formal vote on individual proposals.

Once a new CoEE is approved by the Review Board, an institution has 18 months in which to solicit non-state (private, federal, or municipal) investors to pledge dollar-for-dollar matching of a CoEE's state award total (between \$2 million to \$5 million). These matching pledges must be realized within 78 months of a CoEE's approval date. State funds may only be drawn against realized non-state pledges. The majority of funds (all of the state funds, plus no less than \$2 million of the non-state match²) are placed in endowments, used to pay the salaries or salary supplements of the world-class scientists (endowed chairs) specially recruited to lead each CoEE, as well as specialized equipment, laboratory construction, other faculty, and research assistants.

² In 2006-2007, the Review Board changed this minimum figure from \$2 million to 40% of the non-state match total.

Over time, each research institution has developed concentrated CoEE focus areas. Clemson University's core strengths lay in the area of automotive engineering (with four CoEE's at the International Center for Automotive Research), as well as in the architectural sciences and materials development. USC's Centers generally fall within the three clusters of future fuels (including hydrogen and solid oxide fuel cell research), the biomedical sciences, and nanotechnology. MUSC's strengths lie in the areas of neuroscience, cancer research, vascular disease, and health care quality & finance.

One hallmark of the Endowed Chairs Program is an almost unprecedented scientific collaboration at the academic level. One-third of the CoEE's are scientific partnerships between and among South Carolina public institutions, including two four-year comprehensive teaching universities. Dr. John Schaefer, chair-holder at MUSC's Clinical Effectiveness and Patient Safety CoEE, has noted that such academic collaboration rarely exists anywhere in the nation—not even at Harvard and Yale. The lure of bonded research partnerships serves as an enticing recruiting tool to the renowned scientists required to lead each Center.

At the end of fiscal year 2006, the CoEE Review Board had approved 29 Centers of Economic Excellence and 50 endowed chairs.³ Nine specialized research positions were appointed within the first four years of the program. As envisioned by the General Assembly, the program has turned into an economic boon for the state. By the end of FY 2006, of the \$120 million in state funding approved by the CoEE Review Board,⁴ \$80 million in matching pledges had been committed by non-state sources, with more than \$48 million of these pledges realized and \$41.6 million in state funds drawn down by the research institutions.⁵

³ Clemson University withdrew the Restoration CoEE in July 2007, which included two endowed chairs.

⁴ At the October 30, 2006, Review Board meeting, the Review Board voted that three previous CoEE proposals approved for \$6 million (Regenerative Medicine, Clinical Effectiveness & Patient Safety, and Childhood Neurotherapeutics) be reduced to the statutory maximum of \$5 million.

⁵ At close of FY 2007, these figures are \$144 million, \$89 million, \$62 million, and \$54 million, respectively.

List of Approved Centers of Economic Excellence: 2003-2006

Institution	Funding Yr 02-03	Proposal Title	Proposal Amount
Clemson	2002-03	Automotive Design & Development	\$5 million
Clemson	2002-03	Automotive Manufacturing	\$5 million
Clemson	2003-04	Automotive Systems Integration	\$5 million
MUSC	2002-03	Proteomics	\$4 million
MUSC	2002-03	Neuroscience	\$3 million
MUSC/College of Charleston	2002-03	Marine Genomics	\$4 million
MUSC/Clemson/USC	2003-04	Regenerative Medicine	\$6 million ⁶
USC	2002-03	Nanostructures	\$4 million
USC/MUSC	2002-03	Brain Imaging	\$5 million
Total in 2002-03			\$30 million
Total 2003-04 Funding approved in 2002-03			\$11 million
Institution	Funding Yr 03-04	Proposal Title	Proposal Amount
Clemson	2003-04	Optical Materials	\$5 million
Clemson	2003-04	Vehicle Electronic Systems	\$3 million
Clemson	2004-05	Restoration [WITHDRAWN 7-07]	\$3 million
MUSC/USC	2003-04	Translational Cancer Therapeutics	\$5 million
MUSC/USC	2004-05	Cancer Drug Discovery	\$5 million
USC	2003-04	Polymer Nanocomposites	\$3.5 million
USC	2003-04	Hydrogen & Fuel Cell Economy	\$2.5 million
	2004-05		\$2.5 million
USC/Coastal Carolina	2004-05	Travel & Tourism Technology	\$2 million
Total in 2003-04			\$19 million
Total 2004-05 Funding approved in 2003-04			\$12.5 million
Institution	Funding Year 04-05	Proposal Title	Proposal Amount
Clemson	2004-05	Electron Imaging	\$5 million
Clemson	2005-06	Supply Chain, Optimiz. & Logistics	\$2 million
Clemson	2005-06	Urban Ecology and Restoration	\$2 million
MUSC	2004-05	Gastrointestinal Cancer Diagnostics	\$5 million
MUSC/USC	2004-05	Vision Science	\$4.5 million
MUSC/USC/Clemson	2005-06	Clinical Effect. & Patient Safety	\$6 million ⁷
USC	2004-05	Renewable Fuel Cells	\$3 million
Total in 2004-05			\$17.5 million
Total 2005-06 Funding approved in 2004-05			\$10 million

⁶ Reduced to \$5 million on October 30, 2006. [See footnote 2, page 3.]

⁷ Ibid.

Institution	Funding Year 05-06	Proposal Title	Proposal Amount
Clemson	2005-06	Advanced Fiber-Based Materials	\$4 million
Clemson	2005-06	Molecular Nutrition	\$2 million
MUSC	2005-06	Molecular Proteomics in CV Disease & Prevention	\$5 million
USC	2005-06	Solid Oxide Fuel Cells	\$3 million
USC/MUSC	2005-06	Childhood Neurotherapeutics	\$6 million ⁸
Total in 2005-06			\$19 million
Total Since Program Inception			\$120 million

Institution	Number of Approved Programs	Number of Chairs Approved
Clemson University	11	14
University of South Carolina	8	16
Medical University of South Carolina	10	20
TOTALS	29	50

⁸ Id.



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INDEPENDENT AUDITOR'S REPORT

To the Review Board
South Carolina Centers of Economic
Excellence Columbia, South Carolina

We have audited the statements of program revenues and expenditures of the South Carolina Centers of Economic Excellence (the Program) for the year ended June 30, 2003 as listed in the index. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the program revenues and expenditures of the South Carolina Centers of Economic Excellence for the year ended June 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2007, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 - 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Derrick, Stubbs & Stith, L.L.P.

June 12, 2007

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
PROGRAM REVENUES AND EXPENDITURES - CONSOLIDATED SUMMARY
YEAR ENDING JUNE 30, 2003**

	Clemson University					Medical University of South Carolina				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	-	-	-	-	100,000	316,089	-	416,089
Total contribution revenue	-	-	-	-	-	-	100,000	316,089	-	416,089
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	(1,291)	(1,291)
Unrealized gain	-	-	-	-	-	-	-	-	7,041	7,041
Endowment income	-	-	-	-	-	-	-	-	1,231	1,231
Total investment income	-	-	-	-	-	-	-	-	6,981	6,981
Total revenue	-	-	-	-	-	-	100,000	316,089	6,981	423,070
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	4,093	-	4,093
Supplies	-	-	-	-	-	-	-	-	-	-
Contractual	-	-	-	-	-	-	-	-	-	-
Fixed charges	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	-	-	-	-	-	353	353
Other	-	-	-	-	-	-	-	15,303	-	15,303
Construction	-	-	-	-	-	-	-	197,770	-	197,770
Total expenditures	-	-	-	-	-	-	-	217,166	353	217,519
Program net income	-	-	-	-	-	-	100,000	98,923	6,628	205,551
Cumulative Program Net Income										
Beginning	-	-	-	-	-	-	-	387,500	-	387,500
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ 486,423	\$ 6,628	\$ 593,051

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
PROGRAM REVENUES AND EXPENDITURES - CONSOLIDATED SUMMARY
YEAR ENDING JUNE 30, 2003**

	University of South Carolina					Total - Consolidated				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	256,124	201,250	-	457,374	-	356,124	517,339	-	873,463
Total contribution revenue	-	256,124	201,250	-	457,374	-	356,124	517,339	-	873,463
Investment Income										
Realized gain (loss)	-	-	-	(25,493)	(25,493)	-	-	-	(26,784)	(26,784)
Unrealized gain	-	-	-	48,632	48,632	-	-	-	55,673	55,673
Endowment income	-	-	-	14,026	14,026	-	-	-	15,257	15,257
Total investment income	-	-	-	37,165	37,165	-	-	-	44,146	44,146
Total revenue	-	256,124	201,250	37,165	494,539	-	356,124	517,339	44,146	917,609
Expenditures										
Personal services	-	-	132,924	-	132,924	-	-	132,924	-	132,924
Fringe	-	-	20,309	-	20,309	-	-	20,309	-	20,309
Travel	-	-	5,333	-	5,333	-	-	9,426	-	9,426
Supplies	-	-	4,730	-	4,730	-	-	4,730	-	4,730
Contractual	-	-	60	-	60	-	-	60	-	60
Fixed charges	-	-	1,478	-	1,478	-	-	1,478	-	1,478
Administrative fees	-	-	-	10,208	10,208	-	-	-	10,561	10,561
Other	-	-	-	-	-	-	-	15,303	-	15,303
Construction	-	-	-	-	-	-	-	197,770	-	197,770
Total expenditures	-	-	164,834	10,208	175,042	-	-	382,000	10,561	392,561
Program net income	-	256,124	36,416	26,957	319,497	-	356,124	135,339	33,585	525,048
Cumulative Program Net Income										
Beginning	-	259,401	-	(9,395)	250,006	-	259,401	387,500	(9,395)	637,506
Ending	\$ -	\$ 515,525	\$ 36,416	\$ 17,562	\$ 569,503	\$ -	\$ 615,525	\$ 522,839	\$ 24,190	\$ 1,162,554

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Automotive Design and Development					Automotive Manufacturing Integration				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	-	-	-	-	-	-	-	-
Total contribution revenue	-	-	-	-	-	-	-	-	-	-
Investment Income										
Realized gain	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	-	-	-	-	-	-	-
Endowment income	-	-	-	-	-	-	-	-	-	-
Total investment income	-	-	-	-	-	-	-	-	-	-
Program net income	-	-	-	-	-	-	-	-	-	-
Cumulative Program Net Income										
Beginning	-	-	-	-	-	-	-	-	-	-
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
CLEMSON UNIVERSITY
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Total - Clemson University				
	<u>State Endowment</u>	<u>Non-State Endowment</u>	<u>Non-State Expendable</u>	<u>Endowment Earnings</u>	<u>Total</u>
Contribution Revenue					
State funds	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	-	-	-
Total contribution revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income					
Realized gain	-	-	-	-	-
Unrealized gain	-	-	-	-	-
Endowment income	-	-	-	-	-
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Program net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cumulative Program Net Income					
Beginning	-	-	-	-	-
Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Proteomics					Neurosciences				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	100,719	-	100,719	-	-	100,000	-	100,000
Total contribution revenue	-	-	100,719	-	100,719	-	-	100,000	-	100,000
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	-	-	-	-	-	-	-
Endowment income	-	-	-	-	-	-	-	-	-	-
Total investment income	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	100,719	-	100,719	-	-	100,000	-	100,000
Expenditures										
Travel	-	-	-	-	-	-	-	4,093	-	4,093
Administrative fees	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	15,303	-	15,303
Construction	-	-	100,719	-	100,719	-	-	-	-	-
Total expenditures	-	-	100,719	-	100,719	-	-	19,396	-	19,396
Program net income	-	-	-	-	-	-	-	80,604	-	80,604
Cumulative Program Net Income Beginning	-	-	-	-	-	-	-	375,000	-	375,000
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 455,604	\$ -	\$ 455,604

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Regenerative Medicine					Drug Discovery in Cancer				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	97,051	-	97,051	-	100,000	-	-	100,000
Total contribution revenue	-	-	97,051	-	97,051	-	100,000	-	-	100,000
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	(1,291)	(1,291)
Unrealized gain	-	-	-	-	-	-	-	-	7,041	7,041
Endowment income	-	-	-	-	-	-	-	-	1,231	1,231
Total investment income	-	-	-	-	-	-	-	-	6,981	6,981
Total revenue	-	-	97,051	-	97,051	-	100,000	-	6,981	106,981
Expenditures										
Travel	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	-	-	-	-	-	353	353
Other	-	-	-	-	-	-	-	-	-	-
Construction	-	-	97,051	-	97,051	-	-	-	-	-
Total expenditures	-	-	97,051	-	97,051	-	-	-	353	353
Program net income	-	-	-	-	-	-	100,000	-	6,628	106,628
Cumulative Program Net Income Beginning	-	-	-	-	-	-	-	-	-	-
Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ 6,628	\$ 106,628

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Gastrointestinal Cancer					Vision Science				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	262	-	262	-	-	18,057	-	18,057
Total contribution revenue	-	-	262	-	262	-	-	18,057	-	18,057
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	-	-	-	-	-	-	-	-
Endowment income	-	-	-	-	-	-	-	-	-	-
Total investment income	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	262	-	262	-	-	18,057	-	18,057
Expenditures										
Travel	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-	-	-	-	-
Program net income	-	-	262	-	262	-	-	18,057	-	18,057
Cumulative Program Net Income Beginning	-	-	-	-	-	-	-	12,500	-	12,500
Ending	\$ -	\$ -	\$ 262	\$ -	\$ 262	\$ -	\$ -	\$ 30,557	\$ -	\$ 30,557

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
MEDICAL UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Total - Medical University of South Carolina				
	<u>State Endowment</u>	<u>Non-State Endowment</u>	<u>Non-State Expendable</u>	<u>Endowment Earnings</u>	<u>Total</u>
Contribution Revenue					
State funds	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	100,000	316,089	-	416,089
Total contribution revenue	<u>-</u>	<u>100,000</u>	<u>316,089</u>	<u>-</u>	<u>416,089</u>
Investment Income					
Realized gain (loss)	-	-	-	(1,291)	(1,291)
Unrealized gain	-	-	-	7,041	7,041
Endowment income	-	-	-	1,231	1,231
Total investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,981</u>	<u>6,981</u>
Total revenue	<u>-</u>	<u>100,000</u>	<u>316,089</u>	<u>6,981</u>	<u>423,070</u>
Expenditures					
Travel	-	-	4,093	-	4,093
Administrative fees	-	-	-	353	353
Other	-	-	15,303	-	15,303
Construction	-	-	197,770	-	197,770
Total expenditures	<u>-</u>	<u>-</u>	<u>217,166</u>	<u>353</u>	<u>217,519</u>
Program net income	-	100,000	98,923	6,628	205,551
Cumulative Program Net Income Beginning	<u>-</u>	<u>-</u>	<u>387,500</u>	<u>-</u>	<u>387,500</u>
Ending	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 486,423</u>	<u>\$ 6,628</u>	<u>\$ 593,051</u>

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Nanostructures					Brain Imaging				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	256,124	-	-	256,124	-	-	-	-	-
Total contribution revenue	-	256,124	-	-	256,124	-	-	-	-	-
Investment Income										
Realized gain (loss)	-	-	-	(25,493)	(25,493)	-	-	-	-	-
Unrealized gain	-	-	-	48,632	48,632	-	-	-	-	-
Endowment income	-	-	-	14,026	14,026	-	-	-	-	-
Total investment income	-	-	-	37,165	37,165	-	-	-	-	-
Total revenue	-	256,124	-	37,165	293,289	-	-	-	-	-
Expenditures										
Personal services	-	-	-	-	-	-	-	-	-	-
Fringe	-	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Contractual	-	-	-	-	-	-	-	-	-	-
Fixed charges	-	-	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	10,208	10,208	-	-	-	-	-
Total expenditures	-	-	-	10,208	10,208	-	-	-	-	-
Program net income	-	256,124	-	26,957	283,081	-	-	-	-	-
Cumulative Program Net Income										
Beginning	-	259,401	-	(9,395)	250,006	-	-	-	-	-
Ending	\$ -	\$ 515,525	\$ -	\$ 17,562	\$ 533,087	\$ -	\$ -	\$ -	\$ -	\$ -

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
UNIVERSITY OF SOUTH CAROLINA
PROGRAM REVENUES AND EXPENDITURES
YEAR ENDING JUNE 30, 2003**

	Hydrogen Fuel Cell Economy					Total - University of South Carolina				
	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total	State Endowment	Non-State Endowment	Non-State Expendable	Endowment Earnings	Total
Contribution Revenue										
State funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-state matching funds	-	-	201,250	-	201,250	-	256,124	201,250	-	457,374
Total contribution revenue	-	-	201,250	-	201,250	-	256,124	201,250	-	457,374
Investment Income										
Realized gain (loss)	-	-	-	-	-	-	-	-	(25,493)	(25,493)
Unrealized gain	-	-	-	-	-	-	-	-	48,632	48,632
Endowment income	-	-	-	-	-	-	-	-	14,026	14,026
Total investment income	-	-	-	-	-	-	-	-	37,165	37,165
Total revenue	-	-	201,250	-	201,250	-	256,124	201,250	37,165	494,539
Expenditures										
Personal services	-	-	132,924	-	132,924	-	-	132,924	-	132,924
Fringe	-	-	20,309	-	20,309	-	-	20,309	-	20,309
Travel	-	-	5,333	-	5,333	-	-	5,333	-	5,333
Supplies	-	-	4,730	-	4,730	-	-	4,730	-	4,730
Contractual	-	-	60	-	60	-	-	60	-	60
Fixed charges	-	-	1,478	-	1,478	-	-	1,478	-	1,478
Administrative fees	-	-	-	-	-	-	-	-	10,208	10,208
Total expenditures	-	-	164,834	-	164,834	-	-	164,834	10,208	175,042
Program net income	-	-	36,416	-	36,416	-	256,124	36,416	26,957	319,497
Cumulative Program Net Income Beginning	-	-	-	-	-	-	259,401	-	(9,395)	250,006
Ending	\$ -	\$ -	\$ 36,416	\$ -	\$ 36,416	\$ -	\$ 515,525	\$ 36,416	\$ 17,562	\$ 569,503

See notes to financial statements.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
YEAR ENDED JUNE 30, 2003**

Notes to Financial Statements

Note 1. Description of Program

The South Carolina Research Centers of Economic Excellence Act (the Act) was introduced by Chapter 75 of Act No. A356 and passed by the South Carolina General Assembly during the 2002 legislative session. The Act was established to create the South Carolina Centers of Economic Excellence (the Program) and the Centers of Excellence Matching Endowment, which is to be funded annually by appropriations from the South Carolina Education Lottery in an aggregate amount not to exceed \$ 200 million by 2010. In addition, the Act created the Research Centers of Excellence Review Board (the Review Board), which is responsible for awarding state matching funds, for oversight and operation of the fund, and for various accountability requirements established in the statute for the Program. The Review Board consists of nine members. Of these nine members, three must be appointed by the Governor of South Carolina, three must be appointed by the President Pro Tempore of the South Carolina Senate, and three must be appointed by the Speaker of the South Carolina House of Representatives. The Presidents of the senior research universities of the State of South Carolina (Clemson University, the Medical University of South Carolina, and the University of South Carolina) serve as ex-officio non-voting members.

The purpose of the Act is to create incentives for the senior research universities of South Carolina to raise capital from the private sector to fund endowments for professorships in research areas targeted to create well-paying jobs and enhanced economic opportunities for the people of South Carolina. Privately raised funds are used to match dollar-for-dollar funds appropriated by the General Assembly from the South Carolina Education Lottery. The program's intent is to provide \$ 30 million in South Carolina Education Lottery appropriations to be matched by the institutions each fiscal year through the year 2010.

The endowed professorships are awarded to the senior research universities through a competitive application process, and encourage collaboration among the three research universities as well as with other South Carolina institutions of higher education. Awards from the Centers of Excellence Matching Endowment are to be not less than \$ 2 million and not more than \$ 5 million. Privately raised matching funds are to be raised exclusively from sources other than South Carolina tax dollars, and committed and raised subsequent to January 1, 2002. Proviso 5A.27 in Part 1B of the FY 2004 Appropriations Act allows the research institutions to use federal funds received after July 1, 2003 as non-state matching funds.

Note 2. Summary of Significant Accounting Policies

Basis of presentation and method of accounting: The Program's financial statements are presented on the accrual basis of accounting. Revenues are recorded in the period earned, and expenses are recorded at the time liabilities are incurred. Inasmuch as state funds are not disbursed until cash gifts are in hand, a pledge received in support of a Center is not recognized as revenue until the pledge has been satisfied.

Property and equipment: Property and equipment purchased with program funds is deemed to be the property of the respective research institution.

Assets available for program use: State funds committed for Program use are permanently restricted, as well as the first \$2 million in non-state matching funds, as each of these funding sources are considered endowment funds. Earnings from the endowments funds may be expended for program purposes, as well as any non-state matching funds that exceed the \$2 million endowment.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal grants used as non-state matching funds: Federal grants used as non-state matching funds by the research institutions are not reflected in the statements of program revenues and expenditures. Such funds are maintained separately from the Program by the research institutions.

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
YEAR ENDED JUNE 30, 2003**

Notes to Financial Statements

Note 3. Assets Maintained by Research Institutions

The assets resulting from program activities are maintained by the research institutions, and are held by the universities, their respective foundations, or by the State Treasurer. At June 30, 2003, cash and investments maintained by the research institutions for program purposes was as follows:

Clemson University	\$ -
Medical University of South Carolina	593,051
University of South Carolina	569,503
Total	<u><u>\$ 1,162,554</u></u>

Note 4. Summary of Funded Centers of Economic Excellence

Proposals approved during the fiscal year ended June 30, 2003 from the FY 2002-2003 General Assembly appropriations are as follows:

<u>Institution</u>	<u>Proposal Title</u>	<u>Proposal Amount</u>
USC	Nanostructures	\$ 4,000,000
USC/MUSC	Brain Imaging	5,000,000
MUSC	Proteomics	4,000,000
MUSC	Neuroscience	3,000,000
MUSC/College of Charleston	Marine Genomics	4,000,000
Clemson	Automotive Design and Development	5,000,000
Clemson	Automotive Manufacturing	5,000,000
Total		<u><u>\$ 30,000,000</u></u>

State funding has been committed to these proposals, and the respective institutions are eligible to draw down these funds from the South Carolina Commission on Higher Education as qualifying non-state matching funds are received in hand.

Note 5. Changes in Program Policies Adopted Subsequent to Year End

Extension to the Eighteen-Month Pledge Verification Deadline

Prior to February 26, 2007, the institutions have eighteen months from the date a proposal was approved by the Review Board to verify to the Review Board that all pledges were in place. The Program Guidelines did not stipulate the consequences for not meeting the eighteen-month deadline. At the February 26, 2007 Review Board meeting, a policy change was adopted to allow the institutions to petition the Review Board for a six-month extension of the deadline for each proposal, not to exceed two six-month extension periods. If an institution has not verified pledges for a proposal to the Review Board after two six-month extensions, the proposal must be resubmitted to the Review Board and undergo the full review process.

Change in Endowment Requirements for Non-State Matching Funds

At the October 30, 2006 Review Board meeting, a policy change was made to the amount of non-state matching funds required to be deposited into the Endowment for each proposal. Prior to the policy change, the first \$ 2 million of non-state matching funds for each proposal was required to be deposited into the Endowment. As a result of the changes, no less than 40% of non-state matching funds must be deposited into the Endowment.

In-Kind Contributions Used as Non-State Matching Funds

At the October 30, 2006 Review Board meeting, a policy change was adopted to allow as non-state matching funds in-kind contributions of real property, equipment, supplies and other expendable property, and the value of goods and services directly benefiting and specifically identifiable to a project or program.

If goods or services are donated to an institution, the institution may claim the fair market value of the goods or services as a 'cash equivalent' match. If goods or services have been sold or provided to the institution at a reduced rate, the institution may claim the reduced rate of the goods or services as a 'cash equivalent' match. In-kind contributions may not account for more than 60% of the non-state match total for each proposal.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Review Board
South Carolina Centers of Economic Excellence
Columbia, South Carolina

We have audited the financial statements of the South Carolina Centers of Economic Excellence for the year ended June 30, 2003, and have issued our report thereon dated June 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Carolina Centers of Economic Excellence's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Carolina Centers of Economic Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are reported on page 21.

This report is intended solely for the information of the Audit Committee, Review Board, management and the South Carolina Budget and Control Board and is not intended to be and should not be used by anyone other than those specified parties.

Derrick, Stubbs & Stith, LLP

June 12, 2007

**SOUTH CAROLINA CENTERS OF ECONOMIC EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2003**

Finding #03-1:

Finding: The Program Guidelines state that the first \$ 2 million of non-state matching funds must go into a Center of Economic Excellence endowment. There was one Center at the University of South Carolina (Hydrogen Fuel Cell Economy) and five Centers at the Medical University of South Carolina (Proteomics, Gastrointestinal Cancer, Vision Science, Neurosciences and Regenerative Medicine) that received non-state matching funds that were not placed into the endowment as required.

Corrective Action Taken:

FROM COEE REVIEW BOARD: On August 28, 2006, the CoEE Review Board voted unanimously to change Section VII, "Eligible Matching Funds," of the Program *Guidelines*. The amendment to Section VII eliminated the need for the **first** \$2 million of non-state matching funds to be placed in endowment. A new requirement was established that prescribed at least \$2 million of non-state match funds *or pledges* must be committed to the endowment prior to the drawing of state funds: "Until official pledges and/or cash contributions are obtained for the \$2 million of matching funds required to go into an endowment, no other State funds may be dispersed." This amendment in turn resulted in textual changes to Section IX, "Condition for the Transfer of State Matching Funds." [relevant text italicized]: "Upon verification by the Review Board *of official pledges and/or cash contributions equal to the \$2 million match that must go into the endowment*, transfer of the State match to the University will be made in increments of not less than \$500,000 in exact amounts of the cash in hand as certified by the institution." These changes to the Program *Guidelines* were implemented (a) to accommodate eligible non-state matches with proscriptions against being placed in endowments (such as federal grants and certain philanthropic donations); and (b) to "allow non-state matching funds to be pledged, received and used for operational costs of a center or endowed professor....", particularly for CoEE's funded at the \$2 million level.

FROM UNIVERSITY OF SOUTH CAROLINA: While pledges meeting the "first \$2 million" requirement for non-state funding were secure for these awards, cash for those pledges had not been realized at the time of the request for state funding, so the draws were based on cash received from other non-endowed federal and private grants to the University. The University understood this practice at the time to be within the meaning of the *Guidelines*; i.e., the "first \$2 million" requirement had been met with pledges. The *Guidelines* were subsequently changed to require 40% of the non-state match in the endowment and better accommodate this understanding. Current university practices are in compliance with current *Guidelines*.

FROM MEDICAL UNIVERSITY OF SOUTH CAROLINA: Some funding was placed in expendable accounts prior to receipt of the full \$2 million in non-state matching funds. However, these were federal grant and designated programmatic dollars which had specific restrictions requiring expenditure prior to receipt of the full non-state matching funds. We believe that more rapid receipt and utilization of grant funds should be encouraged rather than be delayed by the slower receipt of endowment funds. All Centers have met the \$2 million minimum pledge or cash requirement for endowment.